

Message Text

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ACTION ARA-20

INFO OCT-01 ISO-00 SPC-03 SAM-01 AID-20 EB-11 NSC-10

RSC-01 CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 L-03

H-03 CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07

OPIC-12 LAB-06 SIL-01 AGR-20 TAR-02 PA-04 PRS-01

USIA-15 EUR-25 DRC-01 /212 W
----- 007195

R 302113Z JAN 74

FM AMEMBASSY TEGUCIGALPA

TO SECSTATE WASHDC 6189

INFO AMEMBASSY GUATEMALA

AMEMBASSY MANAGUA

AMEMBASSY SAN JOSE

AMEMBASSY SAN SALVADOR

C O N F I D E N T I A L SECTION 1 OF 2 TEGUCIGALPA 0423

GUATEMALA FOR ROCAP

E.O. 11652: GDS

TAGS: EIND, EAGR, HO, US

SUBJ: LUMBER PROBLEM DEVELOPMENTS

REF: TEGUCIGALPA 399

SUMMARY: ECOM OFFICERS DISCUSSED DEVELOPMENTS IN LUMBER AND IMPLEMENTATION OF DECREE 103 WITH RICARDO REYES, GENERAL MANAGER OF COHDEFOR, HONDURAN STATE LUMBER ENTITY. PRIMARY IMPLEMENTING DECISION TAKEN THUS FAR IS TO SEEK "PARTNERSHIP" WITH EXISTING EXPORTERS. SOME PROGRESS IN DISCUSSIONS WITH SOME U.S. COMPANIES, BUT SOME OTHERS HAVE NOT SOUGHT APPOINTMENTS. COMMENT ON STATUS OF SEVERAL COMPANIES AND GENERAL RECOMMENDED COURSE FOR FUTURE. END SUMMARY.

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1. REYES IN PROCESS OF OCCUPYING COMMERCIAL OFFICE SPACE,

AND ORGANIZING COHDEFOR FROM GROUND UP. DESPITE START-UP CHAOS OF AGENCY, HE IS DEALING WITH SUBSTANTIVE COMPANY PROBLEMS WITH APPARENT FULL AUTHORITY WITHIN CONFINES DECREE 103. PAST EMBASSY CONTACTS WITH REYES AS VICE-MINISTER OF FINANCE HAVE BEEN CORDIAL AND HE APPEARS ANXIOUS MAINTAIN COMMUNICATION IN NEW ROLE.

2. REYES STATED ONLY ONE MAJOR COHDEFOR DECISION TAKEN TO DATE. COHDEFOR PREFERS TO SEEK MAJORITY (51 PERCENT) PARTNERSHIP WITH EXPORTERS RATHER THAN TAKE OVER 100 PERCENT OF OWNERSHIP AND THEREBY FULL OPERATIONAL RESPONSIBILITY. THIS HE JUSTIFIED BECAUSE EXPORTERS KNOW EXTERNAL MARKET AND NEED OPPORTUNITY TO RECOVER EXISTING INVESTMENT. PAYMENT FOR 51 PERCENT (OR 100 PERCENT IF COMPANY PREFERS) IS TO BE IN FORM OF LUMBER, CANCELLATION OF INDEBTEDNESS TO GOH, ASSUMPTION OF OTHER DEBTS, AND FINANCING BY COHDEFOR.

3. SPEAKING OF PAYMENT ARRANGEMENTS IN GENERAL REYES STATED THAT IN NO CASE DOES GOH INTEND TO ISSUE BONDS OR INSTRUMENTS OF LONG-TERM INDEBTEDNESS IN RETURN FOR COHDEFOR PURCHASE OF EQUITY IN A COMPANY. HE DENIED THAT NEW GOH FORESTRY POLICY IS CONFISCATORY AS EFFECTIVE PAYMENT WILL BE MADE. (SEPARATE SOURCE ADVISED EMBASSY THAT COHDEFOR HAS MADE \$1 MILLION IN LESS THAN ONE MONTH OF OPERATIONS. RESOURCE AVAILABILITY TO SETTLE WITH INVESTORS PROBABLY NOT A SERIOUS LIMITATION.) REYES STATED THAT REGULATIONS GOVERNING COHDEFOR WILL BE DRAFTED CAREFULLY AND SLOWLY WITH NO TIME YET SET FOR THEIR ISSUANCE.

4. CONCERNING SPECIFIC U.S. INVESTMENTS REYES HAD FOLLOWING COMMENTS.

5. HAWTHORNE IN CLOSE COMMUNICATION WITH HIM, AND MUCH PROGRESS MADE. COMPANY WILL DECIDE IF IT WANTS PARTNERSHIP OR FULL SELL OUT TO COHDEFOR. COMPANY PROCEEDING WITH EXPORTS. ITS FINANCING OF LUMBER PURCHASES PROBLEM BEING RESOLVED. COMMERCIAL BANKS NOW REENTERING LUMBER FINANCING AS INITIAL UNCERTAINTIES

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FADE. REYES STATED THAT 15 PERCENT RATE OF RETURN ABOVE COSTS FORMULA ALLOWED TO EXPORTERS IS ONLY TEMPORARY MEASURE TO ALLOW COHDEFOR TIME TO LEARN REALITIES OF INTERNATIONAL LUMBER MARKETING, PRICES, COSTS, ETC. HE IMPLIED A NEW, NEGOTIATED RATE OF RETURN WILL BE HIGHER, ALTHOUGH STILL UNDER CONTROL COHDEFOR.

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C O N F I D E N T I A L SECTION 2 OF 2 TEGUCIGALPA 0423

GUATEMALA FOR ROCAP

6. ROBINSON INTERESTS HAVE NOT APPROACHED REYES SINCE APPEARING IN INITIAL GROUP MEETING (JAN 14) AND BRIEF BILATERAL DISCUSSION WHICH FOLLOWED. REYES UNAWARE OF CURRENT ROBINSON PROBLEMS OR INTENTIONS. HE IS AWARE OF TAX CLAIMS AGAINST ROBINSON'S PRESENT AND PAST COMPANIES, BUT THIS IS A MATTER TO BE RESOLVED BETWEEN THE COMPANY AND THE TAX AUTHORITIES, HE SAID, AND IS OUTSIDE HIS PURVIEW. HE IS AVAILABLE, HE STATED, SHOULD THE COMPANY WISH TO COME IN.

7. SICRE/MARACA, A CUTTING, SAWMILLING, EXPORTING OPERATION OWNED 85 PERCENT BY VIKING OIL RESOURCES INC, A CANADIAN CORPORATION WITH U.S. INTERESTS HAS BEEN IN CONSTANT COMMUNICATION WITH COHDEFOR. REYES IS PROVIDING COMPANY LETTER STATING GOH WILL NOT LEVY PENALTIES AGAINST CORPORATION IF IT HAS FAILED TO DIVEST ITSELF
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OF OWNERSHIP TO HONDURANS BY DEC 31, 1974. COMPANY HAS PAYMENTS COMING DUE TO GOH FOR ITS CUTTING RIGHTS, WHICH REYES SAID NEED NOT BE MADE IF A SETTLEMENT IS REACHED. REYES STATED COMPANY HAS SERIOUS CASH PROBLEM WHICH EXISTED BEFORE DECREE 103. COMPANY MAY DECIDE TO STOP OPERATIONS BECAUSE OF NEGATIVE CASH FLOW CONDITION AND PERSPECTIVES OF FUTURE. LOCAL MANAGER, ROBERT BRIEDE, IN BRIEF CONVERSATION OUTSIDE REYES OFFICE CONFIRMED WORKING CAPITAL PROBLEM AND COMPLAINED ABOUT SLOWNESS OF COHDEFOR REACTIONS TO COMPANY PROPOSALS. ISSUES NOT AT ALL CLEAR, BUT BRIEDE PROMISED TO CALL EMBASSY THIS WEEK. S. DANLI INDUSTRIAL REPRESENTED BY MR DOYLE H. ROMANS. IS A U.S. OWNED SAWMILL WHICH HAS HAD PRELIMINARY EXPLORATORY TALKS WITH REYES.

9. MAYA LUMBER HAS NOT SEEN REYES, BUT SLOAN SMITH HAS APPARENTLY SPOKEN WITH MINISTER OF FINANCE ACOSTA BONILLA. REYES SAYS HE HAS NOT BEEN CONTACTED BY INDUSTRIA MADERERA DEL NORTE (JAMES DAVIS) OR SEVERAL SMALLER U.S. INVESTORS WHOM WE BELIEVE ARE AFFECTED.

10. REYES STATED CURRENT LUMBER EXPORTS UP STRONGLY FROM PREVIOUS YEAR AND THAT DEMAND IS VERY HIGH. STATED WAY IS BEING CLEARED FOR LARGE FOREIGN INVESTMENT IN PULP AND PAPER INDUSTRY. IDB MISSION TO DO STUDY ON BEST LOCATION AND SIZE FOR THE PROJECT.

11. COMMENT: AS ANTICIPATED, REYES OPERATING WITH CONSIDERABLE ADMINISTRATIVE FLEXIBILITY ALTHOUGH WITHIN CONFINES OF DECREE 103. DECISION TO ACCEPT PARTNERSHIP WITH FOREIGN EXPORTERS IS BASED ON LOGICAL PREMISE, BUT IS SOMEWHAT SURPRISING IN POLITICAL SENSE AND GIVEN NATIONALISTIC CONTENT OF DECREE 103. IN PRESENT STATE OF FLUX (15 PERCENT RETURN OVER COSTS SUBJECT TO CHANGE) AND INACCURATE RUMORS (20 YEAR BONDS NOT EVEN MENTIONED BY COHDEFOR), U.S. INVESTORS TOUCHED BY DECREE 103 SHOULD PRESENT THEIR PROBLEMS TO COHDEFOR AND ADVISE EMBASSY AT SOONEST OPPORTUNITY. EXISTING FLEXIBILITY COHDEFOR COULD BE USED UP, ESPECIALLY IF ANTI-FOREIGN PRESS ATTACKS DEVELOP AGAINST REYES' ACCOMMODATING (ALTHOUGH ALWAYS WITHIN LIMITS OF DECREE 103) ADMINISTRATION. SEPTTEL
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FOLLOWS COMMENTING ON DEPTTEL 018691.
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Disposition Date: 28 MAY 2004
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